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Oracle to Take a Run at Lawson Software?

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by Timothy Prickett Morgan

Larry Ellison has probably never met a software company that he hasn't at least thought about owning. With a newfound love for systems--servers, storage, networking, and operating systems--in the wake of its \$5.6 billion acquisition of Sun Microsystems last year, Oracle, the company that Ellison co-founded and is still chief executive officer of, is looking for a way to expand its software business to pay for its systems aspirations. If the rumor mill has it right, then Oracle is thinking about trying to buy Lawson Software.

As *The Four Hundred* reported three weeks ago, Lawson came clean on the evening of March 11 and admitted that it had received an unsolicited takeover offer from rival midrange application software provider Infor and its primary private equity backer, Golden Gate Capital. Lawson's stock had been rising that week, so obviously someone knew that something was up and the Minneapolis, Minnesota, company had to say something so the stock didn't get too far ahead of what Infor and Golden Gate were actually offering.

The two companies ponied up \$11.25 a share to acquire all of Lawson's outstanding stock, including the 10.8 percent stake that activist investor Carl Icahn owns, which was lower than the Friday closing price (\$11.55 per share) for Lawson's stock on the evening that it admitted there was an offer on the table. That closing share price gave Lawson a \$1.88 billion market capitalization and net of debts and cash, though Lawson was worth something on the order of \$1.95 billion that Friday. As I write this a day ahead of Lawson's reporting of its third quarter of fiscal 2011 financial results (on March 31), Lawson is trading at around \$12 a share and the "enterprise value" of Lawson is more like \$2 billion and down from a high of \$12.24 earlier in the week.

That's not exactly pocket change for Oracle, of course, but it would rank among some of the smaller acquisitions it has done to build out its software empire. The minute the unsolicited offer from Infor and Golden Gate was announced, the tongues in the software racket started wagging about who might come in and try to steal Lawson away. SAP could use some help these days, and Oracle is always hungry. (Its bank accounts have a tapeworm, I guess.)

Activist investor Carl Icahn has a 10.9 percent stake in Lawson and has been railing for the company to sell all or parts of itself since last June. In an SC 13D/A filing with the Securities and Exchange Commission, Icahn said that he had a meeting with Lawson CEO Harry Debes and talked about the process Lawson would go through with Barclays Capital, the investment advisor Lawson has retained. Icahn said that he was supportive of "this process and believe that the Issuer [Lawson] should be sold at the highest price obtained from this process."

As far as Icahn is concerned, Lawson is to be sold. Period. It matters little, it would seem, if this would be a good thing for Lawson, its employees, its future and their future, or the future of the companies that use its wares. As long as Carl can turn a profit on the money he has borrowed to get a seat at the Lawson table, then everything is fine. (Yes, that is sarcasm.)

Infor is a good fit for Lawson if a sale is inevitable based on their common midrange histories and the overlap in their customer bases and programming technologies. While there are some cost synergies--back office and development functions--that can be eliminated, Lawson has already cut costs in the wake of its acquisition of Intentia International a few years back and there is just not a lot of fat left. We don't know much about Infor's books, but it is a larger company (somewhere between \$1.8 billion and \$2.2 billion a year in revenues) than Lawson (which had \$745.1 million in revenues in its trailing four quarters).

What Infor does have is a much higher ratio of customers to employees--70,000 customers and 8,000 employees--compared to Lawson, with 4,500 customers and 3,900 employees. Oracle has 370,000 customers worldwide spanning its database, middleware, and application software and now Sun systems and storage products; it has 108,000 employees and generated \$34.4 billion in revenues in the trailing four quarters. Lawson would barely register as a blip inside of Oracle, but it could go a long way to bolstering Infor if the cost-cutting synergies can be found.

Still, Wall Street (and very likely Icahn) is itching for Oracle to come in and make a higher bid, as this report in *Bloomberg* sketchily outlines. No one at any of the companies is commenting on if Oracle has or will make an offer for Lawson. For all we know, Oracle will do what it did with PeopleSoft. Oracle waited until PeopleSoft made a move to acquire JD Edwards and then, after that acquisition was done, it acquired PeopleSoft and ended up with both companies.

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Infor is exactly the kind of acquisition that Oracle wants to make: lots of customers, and lots of steady maintenance revenue. Lawson would just be icing on the cake. The question is whether or not Larry Ellison is talking to whoever runs Golden Gate Capital, and if Oracle is serious about taking on Lawson and Infor together, which have a very heavy emphasis on servers made by IBM. Oracle currently has \$11.9 billion in cash and \$12.5 billion in securities as its third quarter of fiscal 2011 came to a close, but it also as \$14.8 billion in debts of various kinds. That leaves Oracle with \$9.6 billion of net cash. More than enough to buy Infor and Lawson combined.

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